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TAGS: [ECON](#) [PINR](#) [SOCI](#) [BR](#)
SUBJECT: BRAZIL'S WORKING/MIDDLE CLASS GAINS PURCHASING POWER,
POLITICAL CLOUT

REF: 04 BRASILIA 2751

SUMMARY

¶1. Brazil's working/lower-middle class has been making slow but steady progress in regaining purchasing power over the last two years after seeing its economic position erode for a decade (1994-2003) (reftel). These families are becoming more sophisticated in their purchases, with the most notable gains in electronic and technology goods once reserved only for the wealthy. Stable and low inflation, a higher minimum wage, and increased access to credit are just a few economic reasons for the change in purchasing behavior. Business may be targeting persons of modest means as customers more than in the past; however, one expert believes that despite its recent increase in purchasing power, the working/middle class have experienced a deterioration of its quality of life since the 1970s. With most lower class voters expected to support President Lula's re-election, and richer voters preferring challenger Geraldo Alckmin, Class C is expected to be a major political battleground in this year's presidential election. END SUMMARY.

THE PHENOMENON

¶2. Brazil's working/middle class, referred to by economists, demographers, and sociologists as "Class C," has grown over the last two years in size and consumer participation. This group, which represented 31 percent of households and 26 percent of consumers in 2001, now comprises 38 percent of families and 27 percent of buyers. In 2005, Class C increased spending by 55 percent over 2001 levels to total 290.5 billion Reals (approximately USD 137 billion). Car, education, and travel expenses more than doubled, while spending for leisure activities, personal hygiene, and school supplies rose by as

much as 95 percent. This economic/demographic group had seen its purchasing power eroded in the decade from 1994-2003.

13. Nailing down a common definition of Brazil's Class C is difficult. Class C is often referred to generally as a "tier" within the middle class. Some experts have labeled the group as the emerging middle class, lower middle class, and even the working poor. With an average monthly income of 1,800 reais (about USD 850), Class C is sandwiched between the wealthy A and B tiers that hold 62 percent of purchasing power and the bottom rung of classes D and E who represent only 11 percent of consumers.

14. Though Classes A and B vastly outspend Class C, these two groups combined represent only 28 percent of households, a disparity deeply rooted in Brazil's history. Not surprisingly, the poor Classes D and E, represent 34 percent of families and a small percent of consumers.

15. The most striking change in Class C's buying behavior is their taste for sophisticated goods. Saving up for a dream home has fallen in priority behind acquiring tech goods such as televisions, cellular phones, computers, DVD players, internet access, and video games. According to the research group LatinPanel, Class C now has the same access to items that traditionally only Classes A and B had, albeit access to different brands at lower prices.

WHAT HAS CHANGED?

16. A combination of microeconomic factors is partly responsible for change in Class C's spending patterns - lower and stable inflation, readjusted salaries, higher minimum wage and increased access to

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credit. The increased availability of credit cards and other financing is a particularly notable difference. Credit companies are increasingly targeting this portion of the middle class, enabling blue collar workers to travel for the first time by plane and own large domestic appliances thanks to long-term, no-interest payment plans. A 2004 Lula Administration reform increased credit to this group at more affordable interest rates through the introduction of automatic payroll-deduction loan repayment programs, which offered banks greater repayment security.

17. The independent consultant and editorialist for Epoca magazine Ricardo Neves offers a non-economic explanation for Class C's increase in discretionary spending. Neves believes the change in the group's purchasing power is a reflection of the class's socioeconomic aspirations. According to Neves, everyone wants to play an active role in consumerism because it lifts one's self-esteem and confirms their participation in, and contribution to, society. Neves thinks producers can now better distinguish between impoverished and low-income families in their marketing. Some of Neves's clients, such as Unilever and Procter and Gamble, can now deliver their products at affordable prices thanks to economies of scales, improved distribution channels, changes in packaging, and reduced transportation costs.

18. Author and economist Marcio Pochmann of the University of Campinas is less optimistic about the rise of Brazil's middle class. Pochmann sees a shrinking and more impoverished middle class since the 1970s - the decade referred to by Brazilians as the Miracle Decade of growth. Pochmann argues that at least 70 percent of those who were in the middle class between 1980 and 2000 have since suffered from a lower quality of life as result of the "neoliberal wave of open markets, financial and technological promotion, and [low] productivity of the country." Furthermore, Pochmann sees a polarization of classes in Brazil, with the rich and poor growing and the middle class contracting. (Comment: Official data suggest that Pochman is not entirely correct. In the Real Plan's first decade, i.e. from 1994 to 2003, the richest increased their share of national income at the expense of the middle classes, although the poor held their ground. Since 2003, however, both the poor and Class C have increased their share of national income, while the rich have seen their relative share slip.)

COMMENT

¶9. Class C's recent growth in consumerism could be the start of a long-term trend in increased economic power and participation in the country. If the recent favorable economic trends continue, multinational companies may find Brazil's working/middle class an increasingly attractive segment for more aggressive marketing and product development. Class C's increased access to credit, however, may prove to be a mixed blessing. Though credit and financing are significant contributors to the change in the middle class's purchasing behavior, Brazil should be cautious of the downsides of potential spiraling consumer debt and overspending. Fortunately, higher wages and increasing employment over the last two years have enabled Brazilian consumers to keep default rates low, further boosting the current strong growth in consumer spending.

¶10. Meanwhile, as the 2006 election shapes up, members of Class C could play an important role in determining the outcome. Most observers expect President Lula to win the support of Brazil's poorest citizens who benefit from the government's social programs, such as "Bolsa Familia." The business community and large swathes of Classes A and B are expected to support Sao Paulo former Governor Geraldo Alckmin of the Brazilian Social Democracy Party (PSDB). But there is a solid portion of Class C that does not visibly tilt either way, and these are the voters both candidates will have to woo. The critical question is whether, given the change in spending

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habits, such voters consider themselves better off under Lula and expect their condition to improve, or whether Alckmin can convince them that his economic policies are more likely than Lula's to generate more stability and prosperity for Class C. END COMMENT.

¶11. This cable was coordinated with Embassy Brasilia.

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